The Stop & Shop Companies
Annual Report for the year ended January 31, 1976

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A commitment to service

Contents

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Anast W. Giokas, Vice President, Sales
Spyros A. Gavris, Vice President, Meat Operations
Ralph J. Lordi, Vice President, Director of Grocery Purchasing
Richard H. Donlan, Vice President and General Manager, New Jersey Division
Carol R. Goldberg, Vice President and General Manager, Boston Division
Lewis G. Schaeneman, Jr., Vice President and General Manager, Connecticut Division
Donald W. Stowbridge, Vice President, Stores Operations

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Bernard A. Goldman, Vice President

*Corporate Officer

General Merchandise Companies
Robert J. Levin, Group Vice President

Bradlees Department Store Company
Martin Baker, Vice President, Marketing
Raymond J. Doyle, Vice President and Merchandise Controller
Philip J. Hiscock, Vice President, Market Management
C. Robert Peacock, Vice President, Operations and Accounting
Sylvia P. Shaine, Vice President and General Merchandise Manager

Medi Mart Drug Store Company
Seymour L. Silverstein, Vice President and General Manager

Charles B. Perkins Tobacco Shops
Timothy A. Hays, Vice President and General Manager

E. L. Nason Co. Inc. and Fargo Potato Company
Philip Lane, General Manager

Annual Meeting:
June 1, 1976 at 1:30 P.M. at The First National Bank of Boston, First Floor Auditorium, 100 Federal St., Boston, Massachusetts 02110.

Transfer Agent:
The First National Bank of Boston

Registrar:
The National Shawmut Bank of Boston

Auditor:
Peat, Marwick, Mitchell & Company

Counsel:
Goodwin, Procter & Hoar of Boston, Sherin & Lodgen of Boston

General Offices:
393 D Street, Boston, Massachusetts 02210

Shares Traded on:
Boston Stock Exchange
New York Stock Exchange

Automatic Dividend Reinvestment Plan
The Company's transfer agent offers an Automatic Dividend Reinvestment and Cash Stock Purchase Plan which gives shareholders a convenient, inexpensive method of purchasing additional shares of Stop & Shop stock with quarterly dividends and optional cash investments.

For further details write:
First National Bank of Boston
Automatic Dividend Reinvestment and Cash Stock Purchase Plan
P.O. Box 1681
Boston, MA 02105

Our cover is a salute to the men and women who have created the best production and distribution system the world has ever known; the truckers, the warehousepeople, the production technicians, the computer programmers, the accountants, the security agents, the advertising men and women, all those who participate in the process of converting raw commodities into food products, pharmaceuticals, clothing, appliances, and other goods for the American consumer—our customer.

10•K
Copies of Form 10-K, to be filed with the Securities and Exchange Commission, are available without charge by application to: Director of Press Relations, The Stop & Shop Companies, Inc., 393 D Street, Boston, Massachusetts 02210

Comparative Highlights

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	52 Weeks Ended January 31, 1976 (In Thousands)	52 Weeks Ended February 1, 1975 (In Thousands)
Sales	$1,359,776	$1,223,791
Earnings:		
Operating Earnings	14,513	10,106
% of Operating Earnings to Sales	1.07%	0.83%
Extraordinary Income	—	1,886
Net Earnings	14,513	11,992
Operating Earnings Per Share	3.68	2.56[b]
Net Earnings Per Share	3.68	3.04
Dividends:		
Cash Dividends Paid	3,312	3,074
Per Share of Common Stock[a]	.84	.78
Common Stock Distribution (5 for 4 split)	25%	—
Working Capital	55,482	48,221
Current Ratio	1.57	1.65
Stockholders' Equity	92,935	81,706
Book Value Per Share[a]	23.56	20.73

Per Share of Common Stock[a]

	Earnings		Dividends		Market Price	
	1975	1974[b]	1975	1974	1975	1974
First 16 Weeks	$ .54	$ .48	$.20	$.18	$13⅛-10¼	$14⅝-11⅞
Second 12 Weeks	.60	.36	.20	.20	16⅛-11⅝	13½-10⅜
Third 12 Weeks	.76	.43	.22	.20	16⅜-12⅞	10⅞- 8⅝
Fourth 12 Weeks	1.78	1.29	.22	.20	18⅜-14	10¾- 7¼
	$3.68	$2.56	$.84	$.78		

[a]Per share amounts have been restated to reflect a 5 for 4 stock split-up paid April 1, 1976 to stockholders of record March 5, 1976.

[b]Excludes Extraordinary income of $1,886,000 or $.48 per share.

Shareholder's Letter

Senior management from left, Avram J. Goldberg, Sidney R. Rabb, Irving W. Rabb.

It is our pleasure to report the results of the past fiscal year of The Stop & Shop Companies with a great sense of pride in what our people have achieved. The financial highlights of the year speak for themselves; but they are even more significant when considered in the perspective of the past few years. It is important to think back to our terrible Readville warehouse fire of August 1969; to the soaring inflation of the early 1970's, which reversed the historical trend of inexpensive food for all people in our country; to the inevitable imposition of Federal wage and price controls, and the total dislocation of the American distribution system and marketplace; to the oil embargo and the energy crisis, which dramatically changed our people's orientation towards our style of life; and finally, to the economic recession which plagued us all through 1974 and into 1975—and from which we are not yet fully recovered. The past half decade has been a dramatic one in the United States, and indeed in the world. On the business scene alone, we have seen economic and social crises of historic proportions—international and domestic scandals, gigantic bankruptcies, and even a list of "problem" financial institutions. Public confidence in business in general has reached a historic low matched only by similar declines in faith in government, in the media and in most of our national institutions. Yet despite this bleak picture, our society, and our political and economic structure are once more proving to be healthy, vibrant and capable of great accomplishment. As is so often the case in such times of trouble, problems can be converted to opportunities; and that challenge must be interpreted not only in economic, but in moral and leadership terms. For us in retailing, it is to create, preserve and strengthen an institution which will retain the confidence of our customers, not only in our products, but in the very moral integrity of our purpose and practices.

At the same time we must do so in an economic and efficient way, so as to preserve and strengthen a growing company, for the benefit of our stockholders, our 25,000 associates, and all with whom we come in contact. That is indeed the achievement which lies behind the record setting figures set forth below—the achievement of all of the people in The Stop & Shop Companies.

Sales for fiscal 1975 were \$1,359,776,000, compared to sales of \$1,223,791,000 in the prior year. Net operating income for the year was \$14,513,000, compared to net operating income of \$10,106,000 in the prior year. In addition, in 1974 the Company reported an extraordinary gain of \$1,886,000 from settlement of an insurance claim. Total income in 1974, therefore, was \$11,992,000.

Operating earnings in 1975 were \$3.68 a share, on the basis of the average of 3,942,563 shares outstanding after the 5 for 4 split voted by the Directors in February, compared to operating earnings of \$2.56 a share on the same basis in 1974. The extraordinary gain raised total earnings in 1974, on that basis, to \$3.04 a share.

Net Sales	1975	1974
	(In Thousands)	
Stop & Shop Supermarkets	\$ 978,567	\$ 894,099
Bradlees Department Stores, exclusive of licensees' sales	324,072	282,552
Medi Mart Drug Stores	47,619	38,699
Charles B. Perkins Tobacco Shops	9,518	8,441
TOTAL:	\$1,359,776	\$1,223,791

We embarked on 1975, having concluded a year of record sales and earnings. Yet 1974 was also a year in which the state of the economy steadily worsened, until it clearly became America's number one problem. General merchandise mass retailing had suffered a severe setback, in which our own Bradlees Company shared, and for us the major contribution to our success in 1974 was made by our Supermarket Company.

As we reported to you in our last Annual Report, we entered 1975 with a definite strategy for our Bradlees Company. We stated that "while we expect the economy

to improve gradually over the year, we intend to remain lean, buying as demand increases, and not in anticipation of it." All through 1975, as business became stronger, we stuck to our overall strategic approach; and it paid off. With our merchandise pipe lines open and buying discipline maintained, our Bradlees organization was able to replenish stocks with constantly fresh and fashion-right merchandise, readily available to our customers. This approach reached its culmination during the Christmas season, and has continued into 1976. At the same time, the belt-tightening which took place on the operational side during 1974, and the ever-strengthening emphasis on Security & Loss Prevention, created a more efficient organization, from the warehouses through the distribution cycle to the stores, which in turn enabled Bradlees to translate its sales into the highest ever bottom-line contribution to The Stop & Shop Companies. Bradlees achieved these results despite the burden of opening six stores during 1975. By the time you have received this report, we will have opened an additional four Bradlees, bringing the total to 73. Our plan has been to reduce the pace of store openings temporarily at this point, in order to digest the expansion of the past several years, to intensify the productivity of our newer stores, and to work on needed remodels. Nevertheless we must remain flexible within the framework of that strategy, to take advantage of opportunities that may arise. For example, during the liquidation of the W.T. Grant Company, we examined the available locations, considering only those within our own trading areas, and selected a very few of them as potentially advantageous to us. At present, it appears we will add two key Bradlees stores from this group in 1976. Our Real Estate and Research Departments will now turn their attention to other areas of opportunity for strategically placed master Bradlees stores.

As we have said before, Stop & Shop is a family of operating companies and divisions. In 1975 each of them enjoyed greater sales and made a greater contribution to profits than in the previous year. Our Supermarket Company achieved that success in the face of continuing intense competition in the retail food industry. As product inflation declined and the recession continued, we encountered intensified promotional activity on every front. Despite the fact that we operate supermarkets in six northeastern states, supermarketing remains a neighborhood business. Concepts of "market dominance" must take a secondary position to the primary fact of competition among modern stores, within a neighborhood, for the favor of that neighborhood's customers. Our people pay equal attention to national chains, regional chains and outstanding independent retailers, so many of whom operate one to five stores within our trading areas.

This requires a two-pronged approach: on one hand, the leadership of the Supermarket Company is charged with developing company-wide merchandising and Consumer Affairs Programs. This overall thrust is backed up by our Stop & Shop label and Marlboro Meat Processing programs, and the various operating sections of our Manufacturing Division, all of which showed improvements for the year. On the other hand, they must engage in dozens of individual competitive "battles" to maintain the health of each Stop & Shop store. Such a program cannot be legislated from above, but rather requires the participation of literally dozens of highly motivated, well-trained, professional men and women. And that program is carrying forward into 1976 with equal challenges and, hopefully, with equally favorable results.

As we reported to you last year, our goal for Medi Mart was to accelerate the expansion of a proven retail concept . . . the super drug store. We did open six new stores (on a base of 24) for an increase of 25%; yet we are still not moving ahead as rapidly as we would like. The slowdown in the real estate and construction industries, particularly in New England, made it very difficult to find new locations. Hopefully, 1976 will see a gradual improvement on this front, and we currently plan to open seven Medi Marts during the current fiscal year. While the start-up of expenses of such a large number of stores does place an added burden on the Medi Mart people, they are enthusiastic about the expansion program, particularly within our present operating areas where we are constantly increasing our acceptance.

Finally, the performance of our Charles B. Perkins Tobacco Company was also pleasing, and a description of it appears later in this Annual Report.

But Stop & Shop is more than a group of operating companies. And it is almost impossible to understand and to appreciate the essential contribution of all our different departments and divisions. In a special section in this Annual Report, we have tried to give you a brief picture of what is accomplished by those who "labor behind the scenes," for many of the achievements in the year 1975 were a direct result of their efforts.

In March 1976, our Construction Department, acting as general contractor and licensed builder, completed the new 107,000 square foot Perishable Distribution Center in our Readville Complex. We have accomplished the transition from the previous location in South Boston, and this year will distribute fresh fruits and vegetables, dairy products, flowers and plants from the new building to the 86 stores of our Boston Supermarket Division. The new PDC features a

"Cartrac" system for more efficient selection of product; four temperature/humidity areas to provide just the right environment for each kind of fruit; six banana ripening rooms; floral work rooms; a truck washing facility; even steel "shoes" around the footings of the racks to inhibit the growth of bacteria. It is appropriate to note that these outstanding features were created by a team of specialists, brought together from the following divisions of The Stop & Shop Companies: Central Purchasing, Construction & Engineering, Distribution, Loss Prevention, Industrial Engineering, Technological Development & Quality Control — in addition to the involvement of the Perishable Sales, Stores Operations and Boston Supermarket Division people of our Supermarket Company — all working with the outside architects and engineers. When we celebrated with an open house on Sunday, April 4, the entire team rightfully welcomed the guests to "our new building."

On the financial side of the business, the same situation prevails. 1975 was another year of excellent cash management by our people. We required no short term borrowings at all throughout the year. Furthermore, stronger sales and better cash management enabled us to increase our average short term investments in the money market and, as a result, we maintained the same level of interest income as in 1974, despite generally prevailing lower interest rates. Although this effort was spearheaded by the Treasurer's office, it required the cooperation and efforts of people throughout the company.

As part of our ongoing management development program, our financial organization conducted a "Capital Management Day" for the 65 key management members of our "Blue Waters Group." Not only did this add to the overall general management knowledge of the present and future leaders of the business; but it also directly led to their greater contribution to the financial health of the company.

Government involvement in business has become a way of life in the United States; and we must remember that for a retail company the word 'government" ranges from cities and towns to the Federal level. Our policy, of course, is one of complete compliance with all regulations. But, more important, we take positive action in the areas of Safety, Security, Sanitation and Cleanliness — so that we can perform at a standard higher than required by regulations. Our own Quality Control Department conducts store inspections at all Stop & Shop supermarkets, Medi Marts and the restaurant/snack bars in the Bradlees stores. They procure samples of ground beef, bakery products and bulk salads for microbiological examination in our laboratories. In addition to monitoring the condition of our manufacturing facilities and warehouses on a regularly scheduled basis — and spot checking the plants of many of our suppliers of private label merchandise — the department conducted 2,000 inspections of our own stores during 1975.

On the consumer scene, our concept has been so successful that today we have 52 Consumer Boards involving over 1,000 men and women, regularly communicating with all levels of management within The Stop & Shop Companies. Our Consumer Board members let us know in no uncertain terms what is on their minds. As the nature of their questions grew more sophisticated, they began to probe the financial side of Stop & Shop and to ask how we "use" the money we receive at the checkout counter. To respond to these questions, a panel of Stop & Shop executives and financial people put themselves on the firing line for a special Corporate Consumer Board meeting. The members asked many perceptive questions about the financing of our business and by the end of the day, they had taken an important step towards understanding the nature of retailing and the business world in general. As the Consumer Board program continues to grow, as we publish 51 issues of 'Consumerisms' each year, and as our people participate more and more on the local and national level with combined industry and consumer groups, Stop & Shop continues its role as an advocate for consumers' needs. We are proud to report that your company has been honored with a Corporate Social Responsibility Award by *Business and Society Review*, a quarterly journal of commentary and criticism on business and social responsibility. Stop & Shop, one of thirteen corporations given awards for 1975, was cited for maintaining "a unique consumer information program enabling management to reach customers and customers to talk back to management."

Similarly, in the important area of Affirmative Action, despite working in a "layoff economy," we have stayed on target in relation to our goals in the hiring and promotion of minorities and women.

Our capital investment program proceeded on plan with minor variations, with the opening of five new supermarkets, six department stores, six drug stores and four tobacco shops. We closed or sold four supermarkets, two department stores, and one tobacco shop which did not meet the standards we have set for remodeling older stores into more profitable units.

However, the retail food industry has received a setback in its efforts to innovate at the checkout counter. Legislation is now in effect in several states, including Massachusetts, Rhode Island and Connecticut, prohibiting supermarkets from selling any item without a price stamped on it. This came to pass despite the food industry's efforts to work out compromise methods of experimentation and of determining alternate means of helping customers to develop price awareness. Such legislation, unless repealed or amended, will inevitably slow down experimentation in the area of electronic scanning at the checkout counter. No one should claim that the introduction of electronic scanning would reduce the price of food. But certainly, a successful breakthrough at the checkout counter, one of the most labor-intensive areas in the store, would measurably help to slow down the rate of inflation in the cost of food. We hope to continue to work with consumer groups and governmental agencies in an effort to explain the importance of this potential breakthrough.

So the fact remains that despite whatever image "big business" may have in the public mind, our company, as are so many others, is simply a group of human beings, working together towards several common goals: to provide for themselves and their families, to find the opportunity for self-expression through their personal careers, and to be of some service to society. 25,000 families in the Northeast draw their daily sustenance from The Stop & Shop Companies. 20,000 of our people are covered by union contracts negotiated in the true spirit of collective bargaining with 19 international unions. We believe we are among the more attractive companies in our part of the country for young graduates of high school, colleges, and graduate schools of law and business.

Retailing is a challenging and rewarding profession. Although we have been fortunate enough to attract many able associates from outside our company, our basic policy is to promote from within. Thus, each year we look forward to recognizing on these pages major promotions for our key people.

At last year's annual meeting, we had the pleasure of announcing the appointment of Robert J. Levin, President of Medi Mart, to the new position of Group Vice President, General Merchandise Companies, an appointment which recognized the increasingly important contribution of Bradlees, Medi Mart and Charles B. Perkins to our continued growth.

At the same time, Seymour L. Silverstein was promoted to Vice President and General Manager of Medi Mart, succeeding Mr. Levin.

An equally important arm of our Company is Distribution and we have taken a number of steps designed to make that Division more effective and efficient.

Early this year Stephen C. Espo, Vice President and General Manager of Perkins Tobacco, was appointed Vice President, Corporate Information Systems and Distribution. Mr. Espo was succeeded by Timothy A. Hays, formerly a Medi Mart Vice President.

Daniel Donegan was promoted to Vice President, Distribution, and Ralph Cote was named Director of Information Systems.

At Bradlees, Philip J. Hiscock was named Vice President, Market Management, further strengthening the management organization there.

In February 1976, the Board of Directors increased its membership to 15 seats, and elected Julian I. Edison of St. Louis, Missouri, Chairman of Edison Brothers Stores, Inc., a man with a wealth of experience in general merchandise retailing, to the vacancy so created. And in the proxy statement you will receive shortly, you will note the nomination of Robert J. Levin, Group Vice President, for election to the Board of Directors at the Annual Meeting in June.

Due to the abilities of people such as these, and countless others throughout The Stop & Shop Companies, we look ahead with continued confidence in the future of our company—and our society. As a reflection of that confidence, the Board of Directors voted two dividend increases since the last Annual Meeting. On August 20, 1975, the quarterly dividend was increased from 25¢ to 27½¢ payable October 1, to shareholders of record at the close of business September 2. And on February 11, 1976, the Board approved a common stock split-up of one additional share for each four held, and voted to pay a quarterly dividend of 25¢ per share after the split-up. The new dividend was the equivalent of 31¼¢ on the basis of the shares held prior to the split-up.

In behalf of all of our associates at The Stop & Shop Companies, we thank you, our shareholders, for your continued support.

Sidney R. Rabb
Chairman of the Board

Avram J. Goldberg
President

Sidney L. Goldstein

The people of the Stop & Shop Supermarket Company met the challenge of an exceptionally competitive year in 1975 and again posted record sales and contribution to profit.

1975 was also a year of management growth: in the development of strong training programs in the merchandising of groceries, produce and meat; in identifying men and women with management potential in the stores and guiding their development into management positions.

One result of this effort has been increased managerial coverage, through the appointment of more "night managers" in our bigger and busier stores; that experience, in turn, helps in the development of the managers of tomorrow.

The guide for our physical development is constant modernization and upgrading of our stores to the highest standards possible.

In the year we opened new stores at Saddle Brook, New Jersey; North Providence, Rhode Island; Vernon, Connecticut, and Watertown and Somerset (a replacement), Massachusetts.

The high cost of money during the year and more cumbersome environmental standards made it difficult for our landlords to accomplish expeditiously our schedules of remodels. We did complete six, at Orange, Connecticut, and Dorchester (Neponset), Hanover, Worcester, Natick and Northampton, Massachusetts. At year's end, five others were in progress.

We have accelerated our planning process, however, and have 10 to 15 stores scheduled for remodeling this year. With the groundwork laid in 1975, we expect to stay on schedule.

In line with our policy of continuing to operate only those stores which can be upgraded to compete effectively during the next decade, we closed the stores in Marlboro (Burroughs Plaza), Leominster, Massachusetts, and Coventry, Rhode Island.

In all of our stores there was a striking increase in the display of items showing our new red and green Stop & Shop label. The number of Stop & Shop labels reached a new high of 1300 in 1975, reflecting the developing strength of our program.

And expansion of the delicatessen departments in our new and remodeled stores makes possible better service and a wider variety of international and ethnic, as well as the traditional, delicatessen foods.

We look forward with enthusiasm to the opening of our new Perishable Distribution Center at Readville. Modern temperature and humidity controls at the new PDC will provide the best possible environment for receiving, caring for and distributing to our stores fresh fruits, vegetables, flowers and dairy items.

The introduction of our own banana ripening program and a fuller selection of fresh-cut flowers will be important factors in the growth of our produce and florist departments.

Volume growth and refinement of operations were the touchstones of our year, as continued high cost of product and persisting consumer resistance to the necessarily high retails reduced our gross margins, making volume more important than ever.

Our people, as always, reacted with imagination and innovation.

One example, both of an outstanding promotion and the growing importance of general merchandise in our food stores, was a highly successful dish promotion in the Spring.

That success can be measured by some of the numbers generated by the promotion:

10 million pieces sold . . .

21 ships to transport the dishes from the Orient . . .

154 40-foot containers to protect the dishes in transit . . .

and more than 9,500 separate stores deliveries to fill all orders . . .

In addition, the major advertising theme of the year was designed to set us apart from the competition in terms of courtesy to customers, availability of produce, and service:

"That's the way we do things around here."

That theme had community expression in our support for a mobile market for senior citizens in Boston, lending the project our experience and expertise.

We are also working with Bunker Hill Community College in the Charlestown section of Boston to develop a work-study program in retailing for high school students.

Shortly after the end of the year, we reorganized our Boston Division to strengthen administration in the division as well as in the stores.

Thus, our philosophy continues to be to improve our techniques for our controls over expenses and overhead and to strengthen the management of our stores, where it counts the most.

Those factors all combine to make our stores pleasant places to shop and to work, able to serve and satisfy more and more customers with the widest variety of good food at the lowest possible prices.

General Merchandise Companies

Shortly before the 1975 Annual Meeting, Avram J. Goldberg announced the appointment of Robert J. Levin, President of Medi Mart, to the new position of Group Vice President for the General Merchandise Companies.

The appointment was made both to strengthen the corporate management group and to give recognition to the increasingly significant contribution of the General Merchandise Companies (Bradlees, Medi Mart and Perkins) to our sales and earnings.

The General Merchandise Companies met the challenges of 1975 with determination, evidenced by accelerated new store openings, record-setting sales and contribution to profit.

Robert J. Levin and the Bradlees staff from left: Sylvia P. Shaine, Richard D. Goldstein, Philip J. Hiscock, Mr. Levin, C. Robert Peacock, Edward I. Shulkin, James M. Hyman, Martin Baker.

Bradlees Department Stores

In 1975, Bradlees enjoyed the best over-all performance in its history.

This is particularly gratifying in view of the disappointing year of 1974 and the uncertainties of the economy that faced all retailers at the start of 1975.

As indicated in our last Annual Report, we started the year in an excellent inventory position. We also had a lean and hungry organization after effecting substantial reductions in major expense areas of our operation.

A great deal of our success in 1975 was due to the continuing exercise of discipline in the areas of inventory management and expense control.

We embarked on a major program to reduce the rate of inventory loss with emphasis on control at the stores. The results were a significant reduction in this rate and a consequent improvement in contribution to profit.

Consistent promotional activities are essential to Bradlees, and we intensified our multi-media advertising and sales promotion efforts throughout our six-state area. Our emphasis was on value which, we believe, represents the concern of the consumer of today, for a combination of quality and price.

We recognized the high priority challenge of our New York/New Jersey Stores, and established their management as a separate and complete unit. We experienced substantial improvement in these stores as a group and we look forward to further progress in that important area.

Bradlees experienced healthy increases in sales during the all-important holiday season, as the economic climate and consumer confidence improved.

In the spring of 1975 we opened new stores in Fairfield, Connecticut and Saddle Brook, New Jersey. Four more stores were opened in Massachusetts in the fall, in Somerville, Swampscott, Framingham and Watertown.

In March, 1976 we opened new stores in Parsippany-Troy Hills, New Jersey; Johnson City, New York; and Bridgeport and East Hartford in Connecticut, all within our present geographical operating areas. This brings our total to 73 stores.

Each new store reflects our philosophy of constantly improving both our merchandise and our merchandising techniques to meet the changing needs of our customers. The major remodel of our East Haven, Connecticut store reflects this same philosophy as will the remodels we are planning in several of our stores in 1976.

We are continuing our emphasis on the importance of highly experienced and professional Store Management teams—and are constantly upgrading our standards and training programs.

The strengthening of the management organization was a principal objective during 1975. Some of the major appointments included Philip J. Hiscock as Vice President, Market Management; Anthony Grillo as Director of Stores Administration, and Lynn K. Baker who joined Bradlees as Divisional Merchandise Manager for Sportswear.

Robert J. Futoran, who was president of Bradlees for seven years, resigned effective in December of 1975, to become President and Chief Executive Officer of Duty Free Shoppes, Inc. of Hong Kong. The Bradlees organization has since reported directly to Robert J. Levin, Group Vice President, General Merchandise Companies.

We approach 1976 with confidence in our ability to continue our progress and to achieve the goals established for this new year.

Medi Mart Drug Stores

Seymour L. Silverstein, Robert J. Levin

Medi Mart concluded its seventh year of operation with sales approaching $50 million annually and prescriptions being filled at a rate of one and a quarter million a year.

To achieve those results required hard work from every quarter, but the hard work was rewarded by a period of robust growth and Medi Mart's coming of age.

The number of stores increased from 24 to 30, not counting "The Pharmacy" next to the Stop & Shop in Brookline, Massachusetts. That expansion represents an impressive 25 percent physical growth.

On a single day in November we opened three new stores in Massachusetts—Memorial Drive, Cambridge; Neponset Circle, Dorchester, and the Watertown Mall at the Arsenal in Watertown.

We think it a good yardstick of our maturity that the openings went without a hitch, either in terms of people or merchandise.

The Cambridge opening was particularly noteworthy for us because the Medi Mart is next door to our "flagship" Stop & Shop supermarket.

Our Chairman, Sidney R. Rabb, came to cut the ribbon, and hundreds of long-time customers and friends from "Mem Drive" were on hand to greet him and the new store.

The list of new Medi Marts also includes stores in Saddle Brook, New Jersey, Orange, Connecticut, and Swampscott, Massachusetts.

At the Swampscott opening, a representative of Pfizer Pharmaceutical Company presented the then Medi Mart President, Robert J. Levin, with a handsome plaque marking the filling of five million prescriptions by Medi Mart pharmacists.

A striking feature department of our newer stores is the Plant Shop, a good example of Medi Mart's participation in corporate buying and distribution of product.

The Plant Shops provide a touch of Spring and Summer throughout the year, and our customers have received them enthusiastically. In those stores which still do not have Plant Shops, we are actively promoting seasonal flowers, with encouraging results.

Medi Mart maintains a leadership role in the battle against high blood pressure, the "silent disease." For the second straight year, we sponsored in-store hypertension clinics which offer customers free blood pressure readings. Medi Marts in Marlboro, Natick and Hyde Park, Massachusetts, and Orange, Connecticut, in co-operation with local health agencies, conducted clinics in 1975.

In addition, Medi Mart has a program of monthly advisories about consumer health concerns. Subjects covered in pamphlets, booklets and other material include arthritis, diabetes, venereal disease, hypertension, poison prevention, eye tests, drug abuse, kidney disease, cancer and immunizations.

In co-operation with Blue Cross, Medi Mart is distributing a small reference book with a glossary of common medical terms in five languages, which are available in all our stores.

For the people of Medi Mart, 1975 was a time of excitement, change and challenge.

The excitement began with the appointment of Robert J. Levin to the new position of Group Vice President, General Merchandise Companies, a move which recognized Mr. Levin's accomplishments at Medi Mart and Perkins, but which did not deprive us of his leadership.

Seymour L. "Shim" Silverstein was then promoted to Vice President and General Manager of Medi Mart, and Joseph Walsh to General Merchandise Manager.

To add further strength to our management team, Irving Belansky and Charles Garchinsky from the Supermarket Company, joined Medi Mart, Mr. Belansky as Sales and Marketing Manager, Mr. Garchinsky as Director of Stores Operations.

Perkins Tobacco Shops

Stephen C. Espo, Timothy A. Hays

For Perkins Tobacco Shops, 1975 was a year of both action and reaction; the result was record sales and a record number of stores in operation at year's end.

The action took the form of a very aggressive merchandising stance, particularly in our Bradlees departments:

*Dramatic reductions in the prices of most popular national brand cigars and tobaccos, affecting 300 items in all.

*Striking improvement in the presentation of product, with more self-service without sacrificing the personal Perkins touch.

The reaction was to a national trend of declining cigar sales, characterized by the consumer buying fewer but better cigars, and again it was two-fold:

*Enlargement of our showcases for high grade imported and premium cigars, in some cases doubling the space.

*Stepped-up emphasis on special packs and over runs of better cigars, as well as increased private label and controlled label pipes and tobacco, which represent value to the consumer.

For more effective management, we added a fifth field supervisor, Carl Comet, in late 1975.

During the year we continually refined our merchandising contribution to the Company. We now have a monthly meeting with representatives of all the Stop & Shop companies to discuss tobacco merchandising techniques. We work closely with experienced Bradlees people in our program for importing sundries in the Far East and Europe.

We opened two stores in major shopping malls, at Deptford and Eatontown, New Jersey and new departments in the Bradlees at Watertown and Framingham, Massachusetts, bringing to 44 the number of our total operating units.

Deptford, with its bright, imaginative signing ("Distinctive Blends for Particular Smokers") is a prototype store, a polishing of what are already considered the "jewels" of retailing.

We entered the new year with confidence our aggressive merchandising, attractive stores, and organizational strength, and tight control of inventory will carry us forward.

In February, Timothy A. Hays, Vice President, Stores Operations, Medi Mart, was appointed Vice President and General Manager of Perkins Tobacco. He succeeds Stephen C. Espo, who has been appointed Vice President, Corporate Information Systems and Distribution.

Manufacturing

Bernard A. Goldman

A variety of factors contributed to a highly successful year in the Manufacturing Division.

In the first full year of operation, sales of orange juice made from concentrate greatly exceeded our expectations. At year's end we were tooling up for installation of a bulk concentrate system using tank trucks rather than 55-gallon drums.

The tank truck system will offer savings both in the cost of handling drums and in the elimination of rentals for outside storage space during periods of special promotions.

We overcame the problem inherent in the merchandising of "random weight" cheddar cheeses by the use of coupons and can report excellent results. We purchase millions of pounds of cheese each year from producers in Wisconsin, New York State, Vermont and Canada, and supervise its storage under our own quality controls.

When the cheese reaches the right age, we cut and package it, by random weight, in our Cheese Room at the Readville Commissary.

Because it is a random weight product, there is the problem of offering it as a "special" by price per pound. A "cents off" coupon solved that problem.

Despite national brand competition, sales of our own English muffins have continued to grow dramatically, at times requiring as many as 18 shifts a week at the Bakery. After eight months of feasibility and engineering studies, in November we placed an order for a high-speed English muffin production line which should make it possible for us to meet demand more efficiently.

There were significant increases in sales from our Caterer's Kitchen, particularly of such items as corned beef, imported roast beef and turkey breasts, through our service delicatessens. We think it important to mention we are the only food chain producing single-brisket corned beef for our service delicatessens.

The Kitchen successfully developed a number of frozen entree items, to the point many of them are now best sellers in the frozen food case.

Our Stop & Shop decaffeinated coffee has also earned that distinction, of being the best seller in its category, and has made a major contribution to the success of our coffee operation.

The Photo Finishing Lab had another excellent year, as a result in part of strong growth in Supermarket Company sales.

The Lab is now processing most store security film from the Boston Supermarket Division and all microfilm for accounting departments throughout the Company.

Arthur Norris

In 1975 our technical group began a highly sophisticated operation aimed at development of new kinds of packaging for bakery products, flowers and other items produced by us. Our goal is to have wider distribution of such products and to give the customer greater opportunity to buy them in all of our retail outlets.

We assisted in the design and installation of the refrigeration system for the new Perishable Distribution Center at Readville and assumed the Quality Control function for produce and fruit operations in anticipation of the start of the new program in Readville.

We are pleased to report successful results from the tests of a mechanical separator to strip meat from bone, mentioned in last year's report. We installed such a device at Marlboro, with a positive effect on the profitability of the plant.

We also expanded the Marlboro operation to provide sales of beef to hotels and restaurants. That made it necessary to prepare product in a way entirely different from how we prepare it for our stores, but the result was a substantial increase in the number of cars of beef processed at the plant.

In keeping with our determination to make maximum use of the plant's capabilities, we began honing knives at Marlboro and by year's end all of our supermarkets were sending us knives for sharpening.

In the course of the year we redesigned our Readville Food Quality Control Laboratory, and we augmented our staff to give the stores better service. The enlarged staff will also allow us to work more closely with store personnel in establishing standards to meet our future requirements.

Two members of our Senior Management received signal honors during 1975 from their peers in retailing.

Sidney R. Rabb, Chairman and Chief Executive Officer, was named "Man-of-the-Half-Century in the Supermarket Field" by Chain Store Age. He was one of six retailers from throughout the country so honored.

Irving W. Rabb, Vice Chairman and Chairman of the Executive Committee, was named Interim Chairman of the Joint Advisory Board charged with developing the means for merging the Super Market Institute and the National Association of Food Chains, Inc.

Mister Sidney was nominated and elected for his award by fellow retailers. His citation reads, in part:

"An industry leader in innovating merchandising and operations techniques; renowned for introducing modern personnel relations concepts in the food field."

Mister Irving, who has served on the board of both SMI and NAFC and is a past president of SMI, was the unanimous choice of the committee set up by SMI and NAFC to work out the merger.

The People Who Make it Work

We invite you, in this report, to visit behind the scenes of The Stop & Shop Companies and meet a few of the thousands of men and women who keep our Company going—and growing.

The store is properly the focus of all of our activity, but to create a store, to staff it with competent people, to stock it with the best available products at the lowest possible price requires the talents and the energies, at Stop & Shop, of 25,000 people.

They do a great many things, and they do them well.

The limitations of space make it impossible to say as much as we would like about all of them, or to mention each and every job that they do.

But take a minute and consider some highlights of their activity:

Location and Marketing Research (Raj Dhanda, Director) Makes demographic studies of sites proposed for stores; surveys customer preferences with regard to product and services.

Real Estate (Frank A. Crowley, Vice-President) Acquires sites for new stores, through a developer or by purchase, and then sees to it that zoning, design and licensing procedures are complied with. The process may take a year or so, or as long as five or six years; but the goal is always the same, a successful store. Real estate manages the property we own, with more than 200 tenants at the present time.

Engineering and Construction (Harold E. Fine, Vice-President; David Freedman, Director)

Planning and Engineering (Milton Kassner, Manager) Furnishes the wide range of technical services needed in the design of new facilities.

Construction (Richard Boulanger, Manager) Supervises the building of new stores and facilities, this year of the new Perishable Distribution Center at Readville.

Maintenance (Richard Hoctor, Manager) Cares for our property with a staff of technicians skilled in heating, air conditioning, refrigeration, masonry, carpentry, electrical work.

Industrial Engineering (Paul A. Canavan, Director) Evaluates materials handling equipment and work methods in our stores and facilities; had a major role in the design of the new PDC.

Distribution (Daniel Donegan, Vice-President. William M. Vaughn, Director, North Region; George Pavek, Manager, South Region) The more than 1,200 men and women in this division manage the distribution facilities in Readville, Marlboro and Braintree, Massachusetts and North Haven, Connecticut. They operate two trucking fleets with more than 500 pieces of equipment and last year accomplished 1,165,000 store deliveries.

Upper photo: In the dispatch room at Readville, Driver William Tanner, Dispatcher Joseph Scibilia, Operations Manager James Joyce. One of our eye-catching trucks.

Information Systems (Ralph Cote, Director) The 125 men and women in this department, using our two computers—an IBM 360/65 and an IBM 370/145—create systems for processing payrolls, for programming merchandise by data phones. Right now they are developing a corporate ordering, replacement and distribution system.

Corporate Information Planning (Francis X. O'Sullivan, Director) Has the responsibility for monitoring and evaluating the information generated by the point-of-sales terminals in our stores.

Loss Prevention (Benjamin Paskavitch, Director) Our security agents, men and women, in uniform and in plain clothes, protect the assets of our company against theft, fire and damage.

Purchasing (Andrew Prutsalis, Director) Buys the supplies for our offices and stores, provides the tools for our office and technical staffs.

Labor Relations (J. David Fine, Vice-President) Directs the negotiations with the 51 local unions which represent the people of The Stop & Shop Companies.

Personnel Services (Anthony DiNardo, Vice-President) Directs the extensive programs in wages and benefits, training and communications we have established for our 25,000 associates.

Photos, from upper left clockwise: First Shift Supervisor Roland LaPorte and Bob McClafferty, (operating the floor cleaner) in the Grocery Distribution Center at Readville; Supermarket Advertising Manager Richard Hamilton and Artist Win Ledger. The Drafting Room in Construction and Engineering. Working with "on line" Cathode Ray Tubes in Stop & Shop's time-sharing system (William J. Driscoll, foreground, Linda McGue, Charles Willows). Security Administrator Robert A. Doyle, Loss Prevention Director Benjamin Paskavitch, Security Agent Les Sullivan.

Location Research Manager Alan Burt and Researcher Mueenul Huq, below. Right, Computer Operator Nancy Riccio at the IBM 360/65.

Marketing Services (Louis Steinberg, Vice-President) Designs the packages and labels for our private label products and creates the "look" and the "atmosphere," which tells a shopper instantly that this is one of the Stop & Shop family of stores.

Consumer Affairs (Karen Hayes, Director) Speaks to management directly on behalf of the consumer and operates the network of Consumer Boards which keep us alert to what our customers are thinking.

Civic, Government and Community Affairs (Bernard Solomon, Vice-President) Provides the link between the Company and the community in all its aspects; government agencies, civic and social organizations, schools and colleges.

Corporate Law (Samuel W. W. Mandell, Director) Our attorneys guide us in meeting our responsibilities under the laws of the Federal Government and of the states and local communities where we operate.

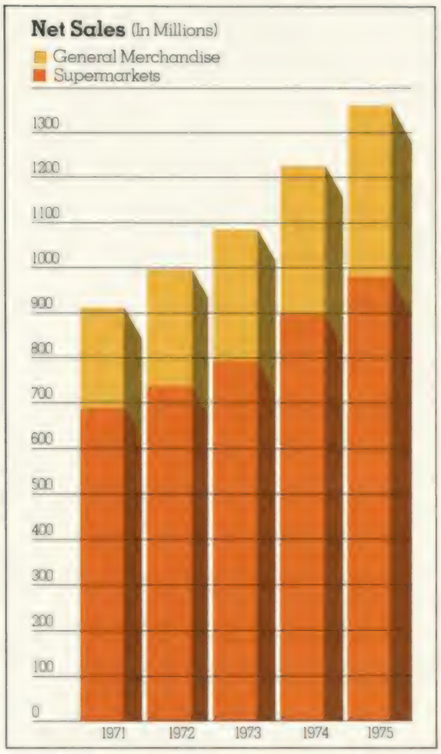
Accounting (Arthur Robbins, Vice-President) Oversees our buying and spending, our income and expenditures, making best use of our resources, and then through quarterly and annual reports, keeps you, the shareholder, informed of our progress.

These, then are the people who stand behind our stores, and pictures of some of them accompany this report.

But, a thousand pictures could not tell the whole story; for example, that they drive 13 million miles a year, handle 10 million pieces of merchandise, program 2 million units of information into our computers.

Every time a customer makes a purchase in any one of our stores, it is a signal to all of us at The Stop & Shop Companies that we are doing what we have to do to make the system work: to offer the consumer the best products available, at the lowest possible price, in a clean, attractive store staffed by friendly, capable people; and with thousands of others "behind the scenes" to make sure our stores are the best.

Management's Analysis and Discussion of Operating Results

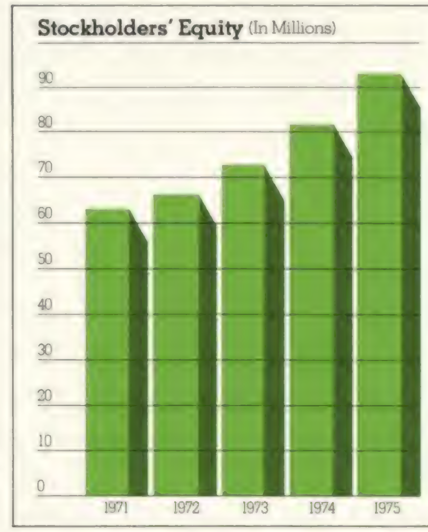


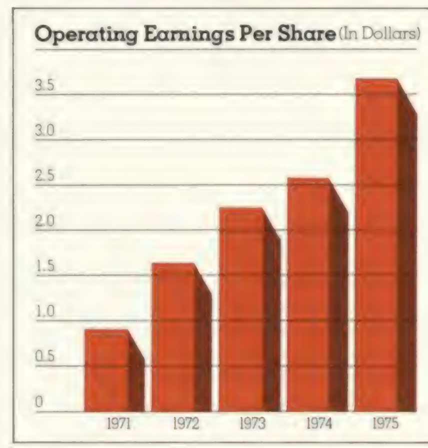
Total sales for 1975 increased by $135,985,000 or 11.1% over 1974. Supermarket sales increased by $84,467,000 or 9.5% and general merchandise sales increased $51,518,000 or 15.6%. The overall sales increase resulted from an improved retail climate in 1975, continued growth in our existing stores as well as sales generated in our new stores and stores remodeled during the year.

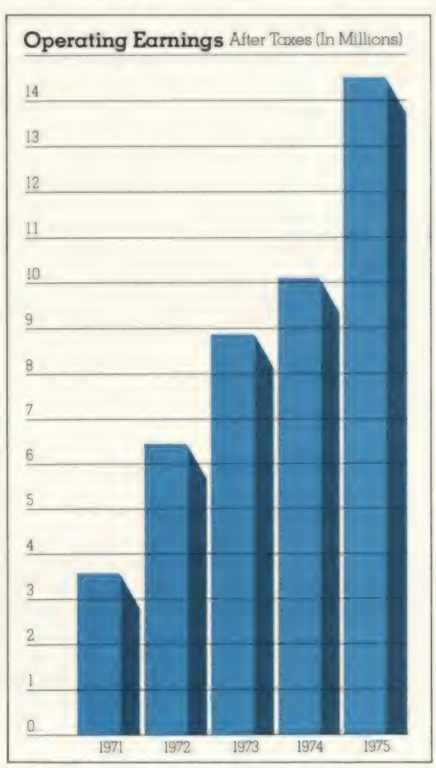
Total sales for 1974 increased by $140,834,000 or 13% over 1973. Supermarket sales increased by $105,335,000 or 13.4% and general merchandise sales increased $35,499,000 or 12.1%. The 1974 sales increases resulted from intensive merchandising efforts, the addition of new stores and the remodeling of several existing stores; and, to some extent, reflected the inflation which existed in 1974. Costs and expenses for 1975 increased by $127,656,000 or 10.8% over 1974, and less than the percentage increase in total sales. The improvement can be attributed to tightened controls of expenses and costs including inventory shortage and overall operational efficiencies. Costs and expenses for 1974 increased by $138,262,000 or 13.2% over 1973, just slightly more than the percentage increase in total sales. The costs of doing business in 1974 increased dramatically in many areas of the Company's operations due to inflation, particularly the costs of goods, wages, utilities and supplies.

Net interest expense other than mortgage debt decreased by $313,000 or 12% from 1974 and in 1974 the decrease was $420,000 or 13.8% from 1973. These decreases were due primarily to reduced short term borrowings against bank credit lines in 1974, no such required borrowings in 1975 and an increase in short term investment of surplus cash in both years.

Operating earnings for 1975 amounted to $14,513,000, an increase of 43.6% over 1974. Operating earnings for 1974 amounted to $10,106,000, an increase of 14% over 1973. Operating earnings as a percentage of sales were 1.07% in 1975, .83% in 1974, .82% in 1973 and .64% in 1972. In 1975 all of the operating companies showed an improvement in contributions to earnings over the prior year with the most significant improvement reflected by Bradlees. In 1974 the effects of high unemployment, the economic recession and increased competition resulted in lower margins and a substantial decline in the contribution by Bradlees, which was more than offset by improvement in the Supermarket Company, Medi Mart and Perkins operations. When the economy turned around in 1975, Bradlees was ready with fresh inventory and a strengthened promotional program, upgraded management and tightened controls on expenses and inventory shortage.







In 1974 the Company realized extraordinary income of $1,886,000 from settlement of fire insurance claims.

Consolidated Ten-Year Financial Summary

Fiscal Year Ended (In Thousands)	1/31/76	2/1/75	2/2/74
Operating Results			
Sales:			
Supermarkets	$ 978,566	894,099	788,764
General merchandise	$ 381,210	329,692	294,193
Total	$1,359,776	1,223,791	1,082,957
% Increase over prior year	11.1%	13.0%	8.9%
Cost of goods sold	$1,060,672	963,060	862,991
Selling and administrative expenses	$ 251,811	221,767	183,574
Depreciation & amortization	$ 15,569	15,004	14,014
Interest expense mortgages	$ 3,896	4,023	4,101
Interest expense other (net)	$ 2,307	2,620	3,040
Pre-tax operating earnings	$ 25,521	17,317	15,237
Operating earnings	$ 14,513	10,106	8,860
Percent to sales	1.07%	.83%	.82%
Percent to common stockholders' equity	15.6%	12.4%	12.2%
Extraordinary income	$ —	1,886	—
Earnings per share of common stock:[b]			
Before extraordinary income	$ 3.68	2.56	2.25
After extraordinary income	$ 3.68	3.04	2.25
Reinvested in the business	$ 11,201	8,918	6,023
Dividends[b]			
Dividends paid	$ 3,312	3,074	2,837
Dividends paid per share of common stock	$ .84	.78	.72
Common Stock Distribution (5 for 4 split)	25%	—	—
Financial Position			
Capital expenditures (net)	$ 22,965	14,400	14,672
Inventories	$ 129,720	107,507	98,584
Working capital	$ 55,482	48,221	38,586
Current ratio	1.57	1.65	1.48
Total assets	$ 298,601	261,990	260,087
Long-term debt less current portion:			
For land and buildings	$ 63,191	57,637	59,776
For other	$ 33,954	36,428	38,895
Stockholders[b]			
Stockholders' equity	$ 92,935	81,706	72,774
Per share of common stock	$ 23.56	20.73	18.47
Number of common shares outstanding	3,944	3,942	3,941
Common stock price range—high-low	18⅜-10¼	14⅝-7¼	15¼-10⅜
Stores			
Stores in operation at year end:			
Stop & Shop supermarkets	157	156	155
Bradlees department stores	69	65	63
Medi Mart drug stores	31	25	22
Perkins tobacco shops	44	39	38
Square footage—sales area at year end: (In Thousands)			
Stop & Shop supermarkets	2,870	2,762	2,728
Bradlees department stores	4,805	4,419	4,176
Medi Mart drug stores	339	279	261
Perkins tobacco shops	27	23	22
Total	8,041	7,483	7,187

[a] 53 weeks.

[b] Per share amounts have been restated to reflect a 5 for 4 stock split-up paid April 1, 1976 to stockholders of record March 5, 1976.

2/3/73[a]	1/29/72	1/30/71	1/31/70	2/1/69[a]	1/27/68	1/28/67
733,797	683,020	603,662	553,046	515,575	459,726	428,939
260,672	224,714	186,288	167,432	139,247	106,635	78,567
994,469	907,734	789,950	720,478	654,822	566,361	507,506
9.6%	14.9%	9.6%	10.0%	15.6%	11.6%	8.0%
794,985	730,060	624,974	570,819	522,182	453,161	409,758
169,860	157,109	139,744	122,610	109,662	93,763	80,453
11,616	9,843	9,419	8,931	7,928	6,839	6,228
3,798	3,034	2,361	2,373	2,084	1,868	1,984
3,407	3,188	3,400	1,622	1,155	1,085	840
10,803	4,500	10,052	14,123	11,811	9,645	8,243
6,400	3,561	5,637	7,445	6,736	6,113	5,456
.64%	.39%	.71%	1.03%	1.03%	1.08%	1.08%
9.6%	5.6%	9.1%	12.6%	12.7%	12.6%	12.6%
—	—	—	—	—	1,773	—
1.62	.90	1.44	1.92	1.78	1.62	1.44
1.62	.90	1.44	1.92	1.78	2.09	1.44
3,562	729	2,819	4,691	4,001	5,391	3,037
2,838	2,832	2,818	2,754	2,735	2,495	2,419
.72	.72	.72	.72	.72	.66	.64
—	—	—	—	—	—	—
13,735	38,561	16,824	19,093	18,251	13,018	10,764
83,518	72,753	60,613	58,624	51,469	42,583	43,145
36,798	36,495	50,059	32,969	32,476	24,716	22,045
1.55	1.59	2.20	1.61	1.92	1.88	1.77
244,729	238,337	200,638	188,305	158,432	133,028	124,992
62,221	62,069	45,951	39,297	38,926	32,646	33,173
41,125	43,575	44,800	26,100	26,100	20,000	16,500
66,751	63,153	62,150	59,251	53,040	48,659	43,254
16.94	16.03	15.87	15.15	13.92	12.87	11.44
3,941	3,939	3,917	3,911	3,810	3,781	3,780
21¼-11⅜	22¾-15¾	24½-15¾	27¾-19⅛	29¾-19⅜	21¾-12⅞	15¼-12⅛
154	156	149	139	138	134	135
56	53	51	50	52	46	39
19	18	13	6	3	—	—
34	33	28	21	—	—	—
2,674	2,655	2,460	2,212	2,134	1,978	1,894
3,575	3,322	3,040	2,968	2,949	2,508	2,117
236	227	162	76	36	—	—
20	18	14	9	—	—	—
6,505	6,222	5,676	5,265	5,119	4,486	4,011

The Stop & Shop Companies, Inc. and Subsidiaries Consolidated Balance Sheet

Assets	January 31, 1976 (In Thousands)	February 1, 1975 (In Thousands)
Current assets:		
Cash	$ 5,277	$ 5,107
Marketable securities (at cost, approximating market)	8,458	2,985
Accounts receivable	7,954	6,282
Inventories, at the lower of cost or market	129,720	107,507
Prepaid expenses	1,239	966
Total current assets	152,648	122,847
Fixed assets, at cost (Notes 1 and 5):		
Land	10,173	10,248
Buildings and improvements	103,648	96,384
Fixtures, machinery and equipment	89,586	85,475
	203,407	192,107
Less accumulated depreciation and amortization	74,036	68,799
	129,371	123,308
Leasehold improvements at cost less accumulated amortization	13,181	11,664
Net fixed assets	142,552	134,972
Other assets:		
Notes receivable, and other	2,017	2,640
Deferred charges	1,384	1,531
Total other assets	3,401	4,171
	$298,601	$261,990

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity	January 31, 1976 (In Thousands)	February 1, 1975 (In Thousands)
Current liabilities:		
Current portion of long-term debt	$ 4,767	$ 4,579
Accounts payable	71,511	50,144
Accrued expenses	18,372	13,754
Federal income taxes	2,516	6,149
Total current liabilities	97,166	74,626
Deferred credits:		
Federal income taxes (Note 7)	10,511	10,749
Other	844	844
Total deferred credits	11,355	11,593
Long-term debt (Note 5):		
Capitalized lease obligation	8,900	9,105
Mortgage notes payable	54,291	48,532
Other notes payable	33,954	36,428
Total long-term debt	97,145	94,065
Stockholders' equity:		
Preferred stock; authorized 500,000 shares, none issued or outstanding	—	—
Common stock par value, $1 per share; authorized 7,500,000 shares, issued 4,019,622 shares and 4,017,300 shares, respectively (Notes 2 and 4)	4,020	4,017
Capital in excess of par value of capital stock (Note 6)	15,093	15,068
Retained earnings (Note 5)	75,129	63,928
	94,242	83,013
Less cost of 75,373 shares in treasury	1,307	1,307
Total stockholders' equity	92,935	81,706
	$298,601	$261,990

See accompanying notes to consolidated financial statements.

Consolidated Statement of Earnings and Retained Earnings

	52 Weeks Ended January 31, 1976 (In Thousands)	52 Weeks Ended February 1, 1975 (In Thousands)
Retail sales	$1,359,776	$1,223,791
Costs and expenses:		
Cost of goods sold, buying and warehousing costs	1,060,672	963,060
Selling, store operating and administrative expenses	251,811	221,767
Depreciation and amortization (Note 1)	15,569	15,004
Interest on mortgages	3,896	4,023
Other interest (net)	2,307	2,620
	1,334,255	1,206,474
Earnings before federal income taxes	25,521	17,317
Federal income taxes (Note 7)	11,008	7,211
Earnings before extraordinary income	14,513	10,106
Extraordinary income (less applicable deferred income taxes of $1,058,000) (Note 3)	—	1,886
Net earnings	14,513	11,992
Retained earnings at beginning of year	63,928	55,010
	78,441	67,002
Less cash dividends paid, $.84 and $.78 respectively (Note 2)*	3,312	3,074
Retained earnings at end of year	$ 75,129	$ 63,928
Earnings per average common share outstanding (Note 2)*:		
Before extraordinary income	$ 3.68	$ 2.56
Extraordinary income	—	.48
Net earnings	$ 3.68	$ 3.04

* Per share amounts have been restated to reflect a 5 for 4 stock split-up paid April 1, 1976 to stockholders of record March 5, 1976.

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

	52 Weeks Ended January 31, 1976 (In Thousands)	52 Weeks Ended February 1, 1975 (In Thousands)
Funds provided:		
Earnings before extraordinary income	$14,513	$10,106
Items which do not use (provide) working capital:		
Depreciation and amortization	15,569	15,004
Deferred federal income taxes	(238)	380
Interest capitalized during construction of major facilities	(184)	(154)
Funds provided from operations	29,660	25,336
Increase in long-term debt	9,100	1,293
Exercise of employee stock options	28	14
Other deferred credits	—	844
Other	770	—
Settlement of fire claims (Note 3):		
Extraordinary income	—	1,886
Deferred tax	—	1,058
Fixed assets affected by fire	—	2,725
	$39,558	$33,156
Used as follows:		
Expenditures for fixed assets, net of book value of disposals	$22,965	$14,400
Cash dividends paid	3,312	3,074
Decrease in long-term debt	6,020	5,899
Other	—	148
Increase in working capital	7,261	9,635
	$39,558	$33,156
Changes in working capital:		
Increase (decrease) in current assets:		
Cash	$ 170	$ (933)
Marketable securities	5,473	2,985
Accounts receivable	1,672	634
Insurance claims for fire loss (Note 3)	—	(4,888)
Receivable from mortgagees for construction costs	—	(407)
Inventories	22,213	8,923
Prepaid expenses	273	(1,734)
	29,801	4,580
Increase (decrease) in current liabilities:		
Current portion of long-term debt	188	42
Accounts payable	21,367	(3,693)
Accrued expenses	4,618	70
Federal income taxes	(3,633)	(1,474)
	22,540	(5,055)
Increase in working capital	$ 7,261	$ 9,635

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Accounting Policies:

Principles of consolidation:
The consolidated financial statements include the accounts for the parent company and all subsidiaries.

Fiscal year:
The fiscal year of the Company and its subsidiaries ends on the Saturday nearest to January 31. The years ended January 31, 1976 and February 1, 1975 each comprised 52 weeks.

Inventories:
Inventories are valued at the lower of cost or market, using the retail method for inventories in retail stores and standard costs, approximating current costs, for inventories in warehouses.

Fixed assets and depreciation:
The Company capitalizes interest during construction of major real estate. This policy has no significant effects on the consolidated financial statements.

Depreciation of fixed assets is computed on the straight-line method at rates which are sufficient to amortize the costs over their estimated useful lives:

Buildings	20 to 40 years
Equipment and fixtures	3 to 15 years
Motor vehicles	4 years

Cost of leasehold improvements is amortized on the straight-line method over periods of 10 to 15 years, or the term of the lease, if shorter.

Federal income taxes:
For federal income tax purposes, accelerated methods of computing depreciation on buildings and equipment are used wherever applicable. Provision has been made for related deferred federal income taxes for this and other timing differences. Investment tax credits on assets placed in service during the year are accounted for as a reduction in the provision for income taxes.

Store opening and closing costs:
The Company follows a policy of charging off all store opening expenses as incurred. Losses resulting from store closings are provided for as soon as reasonably determinable.

Capitalized lease:
The meat processing and packaging plant, built to the Company's specifications, is leased from the City of Marlborough, Massachusetts. The lease expires in 1998 and annual rentals approximate $700,000. The Company has the right to terminate the lease prior to the expiration date and purchase the facility at a price determined principally by the amount required to enable the City to redeem related outstanding bond financing. Accordingly, the Company has recorded the land, buildings and equipment on the books as assets at cost and capitalized the related lease obligation as long-term debt.

Earnings per share:
The Company computes primary earnings per share based on the weighted average shares outstanding during the year (3,942,563 and 3,941,586 shares in 1975 and 1974, respectively). Such weighted average reflects a stock split-up of 5 shares for each 4 shares held (Note 2). Fully diluted earnings per share in each of the years differed from the primary earnings per share by less than 3%.

2. Stock Split-up

In February 1976 the Directors voted a 5 for 4 stock split-up payable April 1, 1976 to stockholders of record March 5, 1976. Shares and per share amounts for 1975 and years prior in this report reflect this stock split-up.

3. Settlement of Insurance Claims

In 1974 the Company received final payment of insurance claims covering the loss by fire in 1969 of its principal grocery distribution warehouse, its contents and related business interruption losses. The excess of the total claim over the book value of assets destroyed and recoverable business interruption losses, net of related taxes, is shown as extraordinary income in 1974.

4. Stock Options

Options under the Company's Qualified Plan are granted at 100% of market value at date of grant and expire in five years. Options are exercisable in four equal cumulative annual installments commencing 18 months after grant date.

Changes are summarized as follows:

	1975		1974	
	Shares	Grant Price	Shares	Grant Price
Outstanding, beginning of year	159,506	9½-18⅜	111,019	11¼-26⅛
Options granted	15,625	8¾-16⅞	67,100	9½-13¼
Expired or cancelled	(11,031)	9½-18⅜	(17,457)	9½-26⅛
Options exercised	(2,363)	11⅝-13¼	(1,156)	11⅝
Outstanding, end of year	161,737	8¾-18⅜	159,506	9½-18⅜
Exercisable, end of year	65,347	11¼-18⅜	38,704	11⅝-18⅜
Available for future grants	25,421		30,015	

5. Long-Term Debt

	1975	1974
	(In Thousands)	
Industrial Revenue Bonds, 5.1% to 5.75%, maturing annually in increasing amounts from $215,000 to $685,000 from 1977 to 1998.	$ 8,900	$ 9,105
Mortgage notes, 4¼% to 10½%, (weighted average of 8.2% in 1975 and 7.8% in 1974) maturing annually at amounts averaging $3,100,000 through 1981, $2,400,000 from 1982 to 1996, and thereafter at smaller varying amounts through 2000.	54,291	48,532
Promissory note 7.6%, maturing $2,450,000 annually to 1988 and the balance payable in 1989.	33,775	36,225
Promissory note 8.0%, maturing at increasing amounts through 1983.	179	203
	$97,145	$94,065

Long-term debt maturing in the period 1977 to 1981 is as follows:

(In Thousands)

1977—$6,060	1980—$5,634
1978— 5,982	1981— 5,674
1979— 5,735	

The mortgage notes are secured by land, buildings and improvements costing approximately $93,900,000 and by assignments of intercompany lease agreements.

Under the terms of the 7.6% Promissory Note, through 1989 working capital must be maintained at $20,000,000 and certain restrictions with respect to payment of cash dividends or purchase or retirement of capital stock are in effect. As of January 31, 1976, approximately $22,250,000 of retained earnings was not so restricted.

6. Capital in Excess of Par Value of Capital Stock

	1975	1974
	(In Thousands)	
Balance at beginning of year	$15,068	$15,858
Add:		
Excess over par value of proceeds from sale of capital stock to employees under stock option plan	26	13
Deduct:		
Transfer to common stock for 5 for 4 stock split-up (Note 2)	1	803
	$15,093	$15,068

7. Federal Taxes Charged to Income

The provision for federal income taxes includes deferred taxes of $(238,000) in 1975 and $380,000 in 1974, and has been reduced by investment tax credits of $1,310,000 in 1975 and $801,000 in 1974.

The federal tax expense in 1975 and 1974 reflected effective rates of 43% and 42% respectively compared with the statutory federal income tax rate of 48%. The reasons for these differences are as follows:

	1975	1974
Tax expense at statutory rate	48%	48%
Investment tax credit	(5%)	(5%)
Other	—	(1%)
Effective tax rate	43%	42%

State income taxes are included in selling, store operating and administrative expenses.

Deferred income tax of $1,058,000 arising from fire claims has been deducted from the related extraordinary income in the 1974 statement of earnings. For tax purposes the Company elected the conversion procedure with respect to this gain.

8. Rental Commitments

At January 31, 1976 the Company had various non-cancellable leases in effect for store properties, office buildings and distribution centers.

The number of stores owned or leased by the Company is as follows:

	Owned	Leased	Total
Stop & Shop			
Supermarkets	60	97	157
Bradlees			
Department Stores	11	58	69
Other	14	61	75
	85	216	301

Substantially all of the non-cancellable leases are "operating leases" as defined in the guidelines of the Securities and Exchange Commission. Leases falling within the definition of "financing leases" are not significant and the total present value of such lease commitments and the impact on net income if capitalized would not be material.

The minimum rentals for real estate payable to outsiders by the Company and its subsidiaries, exclusive of real estate taxes, other expenses and additional

rents based on a percentage of sales in certain stores are as follows:

(In Thousands)	
1976—$18,056	1981 to '85 —$74,737
1977— 17,734	1986 to '90 — 57,426
1978— 17,503	1991 to '95 — 32,278
1979— 17,240	Remainder— 2,032
1980— 16,945	

Rental expense for real estate (net of sublease income) in 1975 and 1974 amounted to $12,900,000 and $11,200,000 respectively.

The Company also, in general, rents its transportation equipment under relatively short-term cancellable leases. Such rentals (net) approximated $1,400,000 and $850,000 in 1975 and 1974 respectively. Other equipment rentals under cancellable leases approximated $1,800,000 and $1,400,000 in 1975 and 1974, respectively.

9. Retirement Plan

The Company's non-contributory retirement plan is available to all employees meeting minimum age and service requirements other than certain union employees covered by union-sponsored plans. The plan was amended as of January 1, 1976 to comply with the Employee Retirement Income Security Act of 1974 and the actuarial methods and assumptions have been changed in light of the Act. The Company's policy is to fund retirement costs accrued, which in the current year, based on the aforementioned changes amounted to approximately $1,369,000 ($930,000 in 1974). As of January 31, 1976 total plan assets exceeded the actuarially computed value of vested benefits.

10. Wholly-Owned Realty Subsidiaries—Combined Balance Sheets

	January 31, 1976	February 1, 1975
	(In Thousands)	
Assets:		
Cash and receivables	$ 552	$ 146
Due from parent company	15,178	13,087
Fixed assets at cost:		
Land	9,220	9,359
Buildings and improvements	73,015	78,111
	82,235	87,470
Less accumulated depreciation and amortization	27,145	26,754
	55,090	60,716
Other assets	1,201	1,593
	$72,021	$75,542
Liabilities:		
Current portion of long-term debt	$ 2,751	$ 3,142
Accounts payable and accrued expenses	871	1,019
Deferred federal income taxes	2,410	2,477
Deferred other	844	844
Long-term debt, less current portion above (Note 5)	45,847	48,532
Parent company's equity:		
Capital stock	59	60
Retained earnings	19,239	19,468
	$72,021	$75,542

Accountants' Report

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
ONE BOSTON PLACE
BOSTON, MASSACHUSETTS 02108

The Board of Directors and Stockholders
The Stop & Shop Companies, Inc.:

We have examined the consolidated balance sheets of The Stop & Shop Companies, Inc. and subsidiaries as of January 31, 1976 and February 1, 1975 and the related consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of The Stop & Shop Companies, Inc. and subsidiaries at January 31, 1976 and February 1, 1975 and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

March 15, 1976

Peat, Marwick, Mitchell & Co.

Directors

William Applebaum
Lecturer on Food Distribution and Comparative Marketing, Emeritus, Harvard Business School.
Norman L. Cahners
Chairman of the Board and Chief Executive Officer, Cahners Publishing Company, Inc.
Julian I. Edison
Chairman of the Board, Edison Brothers Stores, Inc.—Specialty Retail Stores
Albert S. Frager
Treasurer and Chief Financial Officer of the Company.
Donald A. Gannon
Retired; formerly President of the Company.
Avram J. Goldberg
President and Chief Operating Officer of the Company.
Carol R. Goldberg
Vice President and General Manager of the Boston Division of the Supermarket Company.
Donald J. Hurley
Partner, Goodwin, Procter & Hoar, Counsellors at Law; Clerk and Secretary of the Company.

William F. Pounds
Dean, Alfred P. Sloan School of Management, Massachusetts Institute of Technology.
Irving W. Rabb
Vice Chairman of the Board and Chairman of the Executive Committee of the Company.
Norman S. Rabb
Retired; formerly Vice Chairman of the Board, Senior Vice President and Assistant Treasurer of the Company.
Sidney R. Rabb
Chairman of the Board and Chief Executive Officer of the Company.
Peter J. Solomon
Managing Director, Lehman Brothers Incorporated—Investment Bankers.
Lloyd D. Tarlin
Vice President, University Bank and Trust Company, formerly Senior Vice President of the Company.
William W. Wolbach
President, The Boston Company, Inc.—Financial Holding Company, and Chairman of the Board, Boston Safe Deposit and Trust Company.

Executive Committee:
Sidney R. Rabb, Irving W. Rabb, Avram J. Goldberg
Audit Committee:
Donald J. Hurley, William F. Pounds, William W. Wolbach
Finance Committee:
Mr. Sidney Rabb, Albert S. Frager, Mr. Hurley, Mr. Pounds, Peter J. Solomon, Mr. Wolbach

Albert S. Frager
Carol R. Goldberg
Irving W. Rabb

Donald A. Gannon
Norman L. Cahners
Peter J. Solomon
William Applebaum

William F. Pounds
William W. Wolbach
William Applebaum

Lloyd D. Tarlin
Irving W. Rabb
William Applebaum

Julian I. Edison
Norman S. Rabb
Norman L. Cahners

Julian I. Edison
Avram J. Goldberg
Norman L. Cahners

William F. Pounds
Sidney R. Rabb
Donald J. Hurley

The Stop & Shop Companies
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